

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Application of Southern California Gas Company (U904G) and San Diego Gas & Electric Company (U902G) for Authority to Recover North-South Project Revenue Requirement in Customer Rates and for Approval of Related Cost Allocation and Rate Design Proposals.

Application 13-12-013
(Filed December 20, 2013)

**REPLY COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES
TO THE OPENING COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY
AND SAN DIEGO GAS & ELECTRIC COMPANY, NORTH BAJA, LLC
AND TRANSWESTERN PIPELINE COMPANY, LLC ON THE PROPOSED DECISION
OF ADMINISTRATIVE LAW JUDGE BEMESDERFER DENYING APPLICATION**

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I. INTRODUCTION

In accordance with Rule 14.3(d) of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Office of Ratepayer Advocates (“ORA”) hereby submits its reply comments to the April 25, 2016, Opening Comments (“OC”) of Southern California Gas Company and San Diego Gas and Electric Company (collectively “SCG”), the OC of North Baja, LLC (“North Baja”), and the OC of Transwestern Pipeline Company, LLC (“TW”), on the Proposed Decision (“PD”) of Administrative Law Judge Bemendorf Denying Application in the above-captioned proceeding.

II. REPLY TO SCG’S OPENING COMMENTS

A. SCG FAILS TO DISPROVE THE PD’S CONCLUSION OF LAW THAT EXISTING TOOLS, MODIFIED CONTRACTS AND TARIFFS CAN PROVIDE ENHANCED SOUTHERN SYSTEM RELIABILITY, AND THUS A RULEMAKING IS UNNECESSARY

SCG cites Conclusion of Law 1 noting a “need for enhanced system reliability in the Southern System” but mistakenly calls it “one of only two conclusions of law.”¹ The PD issued four conclusions of law. Conclusion of Law 3 found that “[t]he TURN/ORA/SCGC proposals to rely on existing contracts and tariffs to provide enhanced system reliability are reasonable alternatives to the North-South project.”² Although SCG states that it “did not file this application in order to confirm their ability to use existing tools to manage Southern System reliability,”³ during the course of the three winters since the start of the proceeding, use of those existing tools *did* manage Southern System reliability at a fraction of the cost of a greenfield pipeline, and in contradiction to SCG’s false assertion that such costs would continue to spiral upward for many years. While SCG claims that “[a]s the system operators [they] are well aware of the capabilities and the drawbacks of existing Southern System support tools,”⁴ given its incorrect prediction of ever increasing costs associated with the maintenance of system reliability by the system operator, SCG was *not* well aware of the drawbacks of such tools in the form of costs, which are about an order of magnitude less than the \$121 million⁵ impact on annual rate

¹ SCG OC p. 2, citing PD, p. 23, Conclusion of Law 1.

² PD, p. 23, Conclusion of Law 3.

³ SCG OC, p. 3.

⁴ SCG OC, p. 3

⁵ PD, Finding of Fact 5, p. 23

base the North-South project would have. Moreover, SCG itself promoted the use of liberal balancing and other shipper-friendly policies to generally encourage use of its natural gas transportation system, even as these measures dissuaded shippers from bringing gas onto the system where and as it is needed. SCG supported balancing rules that could have exacerbated the problems which it now claims require the construction of expensive pipe, even as those balancing rules have been tightened in the wake of supply problems and now limited availability of Aliso Canyon storage gas.⁶

In response to the PD's denial of its request to recover the costs of the North-South project in rates, SCG commented that "the Commission Should Suspend the PD and Initiate a Rulemaking to Receive *Additional Evidence* Regarding Southern System Reliability Proposals"⁷ in order to consider more fully alternate proposals for meeting Southern System reliability, and perhaps even North-South again itself. Elsewhere, SCG claimed that it had provided more than a sufficient volume of information for the Commission to make a fully informed and definitive ruling on its application, noting the length of and numbers of citations in its briefs.⁸ SCG changed the scope and costs of its initial project and refiled it in November 2014 without changing much of its initial testimony. SCG not only failed to provide "detailed"⁹ testimony that North-South was "cost-effective" and appropriately scaled for the problem it identified, but failed to provide *any* reasonable cost-benefit or similar analysis showing that North-South was worth the \$620 million price tag.

The Commission did not ignore SCG's evidence "regarding the numerous potential operational benefits of access to an on-system physical link between the Northern and southern

⁶ A.14-06-021 examined the Low Operational Flow Orders and Emergency Flow Orders of SCG. A.14-12-027 examined the need for changes to the High Operational Flow Orders and tighter monthly balancing. The California Independent System Operator is currently proposing numerous changes to electric operations due to the limited availability of Aliso Canyon.

⁷ SCG OC, p. 4 (emphasis added).

⁸ See SCG OC, p. 5. Quantity of material here did not equate to quality, a possibility noted by SCG, because SCG offered no formal analysis comparing the costs of North-South with its purported benefits, and only one informal analysis that overestimated costs incurred by SCG to maintain reliability at the border through the system operator.

⁹ See SCG OC, p. 5.

portions of [SCG's] transmission system”¹⁰ as SCG suggests, but appropriately considered SCG's evidence as lacking much probative value in failing to show that such benefits were worth the cost of the pipeline. SCG filed and refiled the application without any prior determination by the Commission or stakeholders of the scope and nature of Southern System reliability issues, and then insisted that only a physical solution connecting to other sources of gas would be sufficiently reliable. By asking for a rulemaking proceeding now, SCG effectively admits that it has not met its burden of proof in this proceeding to support North-South.

B. SCG FAILED TO DEMONSTRATE AND QUANTIFY ANY IMPACT ON FLOWS TO EHRENBURG ASSOCIATED WITH INCREASED MEXICAN DELIVERIES

SCG repeats its unsupported assertion that an increase in deliveries to Mexico of gas from multiple pipeline systems, including off the Southern System hundreds of miles away from Ehrenburg, automatically and necessarily lowers the amount of gas that can reach Ehrenburg,¹¹ despite the numerous pathways on El Paso's grid-like pipeline network available to reach Ehrenburg that service to Mexico will not interrupt, particularly for gas sourced primarily from the San Juan Basin on the northern system. Mr. Chaudhury could not conclude that increased deliveries to Mexico of the Southern System would decrease supplies available at Ehrenburg by any specific amount.¹² SCG failed to present *any* forecast of gas available at Ehrenburg for 2020 and beyond, regardless of the impact of deliveries to Mexico on such supplies.

C. CONSIDERATION OF DIFFERENT, REDUCED ACCESS TO STORAGE IN THE WAKE OF THE ALISO CANYON INCIDENT SUPPORTS REJECTION OF THE CURRENT APPLICATION

A week after submission of reply briefs in this proceeding, SCG became aware of a natural gas leak at its Aliso Canyon storage facility outside of Los Angeles, which, in the

¹⁰ See SCG OC, p. 6. The PD at p. 14 cites the benefit of North-South “as insurance against a force majeure event that temporarily interrupts the flow of gas into California via the El Paso system.” The PD also notes that with respect to system-wide gas supply shortages, SCG conceded that North-South would not have avoided the recent curtailments that SCG noted as reasons to support North-South. PD, p. 12. SCG did not offer evidence about the cost of curtailments that it could have claimed North-South would have likely avoided. See 2 RT 330:17 -331:2 (SCG/Buczowski). Similarly, SCG's point about the benefit in the event of a force majeure event, must take into account the likelihood of a force majeure event which would be avoided by the North-South project, and specify the costs associated with such an event, not just broadly state that if El Paso's Southern Mainline goes down for an extended period “the resulting economic and social costs ... could dwarf the costs of the North-South Project” SCG Opening Brief, p. 62.

¹¹ See SCG OC, pp. 9-10.

¹² See, e.g., 4 RT 552 (SCG/Chaudhary) and 553-558.

absence of an automatic shutoff valve, it was unable to plug for almost four months, the time it took to complete the drilling of a brand new well more than 8000 feet in depth to intercept the leaking well. Although the Aliso Canyon incident was not formally considered in the proceeding, the Commission's Information alert announcing the PD denying the application also noted that the lessening of amount of gas in storage in the north reduces the value of the North-South project.¹³ SCG offers that the Commission should acknowledge the role of Aliso Canyon in the PD, and consider the ramifications of lack of storage in a rulemaking governing southern system reliability.¹⁴ SCG also acknowledges that regulations restricting injection and withdrawal to tubing only rather than through exterior casings will somewhat reduce the storage and withdrawal capabilities of Aliso Canyon.¹⁵

In testimony regarding the value of North-South, SCG stated unequivocally that the value of North-South was due to its connection to gas storage.¹⁶ Because of the location of such storage hundreds of miles and many hours away from San Diego, and the need of Los Angeles-area customers for use of storage for meeting their own gas needs, parties expressed doubts even before Aliso Canyon that access to storage for the south would be available when demand was high on the northern system.¹⁷ The PD concluded that North-South would not have allowed access to storage gas to avoid curtailments caused by system wide gas shortages.¹⁸ In the wake of the Aliso Canyon incident and admitted reduced storage and reduced ability to withdraw as much gas from storage at a time, and that North-South was not designed taking into account the post-Aliso Canyon circumstances,¹⁹ the emergence of storage-related issues associated with Aliso Canyon further argues against the reasonableness of North-South.

III. REPLY TO TW's AND NORTH BAJA'S OPENING COMMENTS

TW and North Baja both request that its alternative proposal be chosen now as the most effective solution to Southern System Reliability issues. However, the current record does not support the granting of an interstate capacity contract. The PD concluded that existing tools have been sufficient to maintain reliability, and the PD noted that SCG did not prove that gas demand

¹³ SCG OC, pp. 12-13.

¹⁴ Id.

¹⁵ Id, p. 13.

¹⁶ See, e.g., SCG Reply Brief at pp. 15-18.

¹⁷ See 1 RT 86:22 – 87:2 (ORA/Bromson and SCG/Marelli).

¹⁸ PD, p. 12.

¹⁹ SCG OC, p. 13.

would increase.²⁰ North Baja argues that the uncertainty of the amount of storage and the lack as of yet of a specific post-Aliso Canyon incident policy “highlight the need for the physical solutions proposed in this proceeding”²¹ even though such physical solutions did not take into account a shutdown of any SCG storage fields and updated storage regulations and no record evidence was provided on such issues, as the incident occurred after reply briefs were submitted. Moreover, North Baja’s comment that “those nonphysical tools which ORA, TURN, and SCGC have proposed rely in part on the availability of storage in order to provide customer and system flexibility”²² overlook that it was SCG’s use of its storage facilities that allowed it to provide customers with the flexibility to not bring all the gas onto the system as they were using, leading to the supply mismatches which SCG claimed justified North-South; and that ORA/TURN/SCGC proposals to augment supply at the California border²³ provide additional system reliability both in the presence and absence of storage.

Respectfully submitted,

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²⁰ PD, p. 12. See TW OC, p. 5, arguing that the potential of increased demand justifies building its proposal.. The PD at p. 12 notes that SCG failed to prove gas demand was increasing.

²¹ NB OC, p. 5.

²² NB, OC, p. 5.

²³ See PD, pp. 18-19.